

**STATE MILK COMMISSION  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 1999**

***AUDITOR OF  
PUBLIC  
ACCOUNTS***



***COMMONWEALTH OF VIRGINIA***

## **AUDIT SUMMARY**

Our audit of the State Milk Commission for the year ended June 30, 1999, found:

- no instances of noncompliance that are required to be reported;
- no matters involving the internal control structure and its operation that we consider material weaknesses;
- proper recording and reporting of transactions, in all material respects, in the Commission's accounting records regarding the Equalization and Producer Loss Recovery Funds; and
- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System.

July 10, 2000

The Honorable James S. Gilmore, III  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

#### AGENCY BACKGROUND

The **State Milk Commission**, created in 1934, supervises and regulates the producer price, supply, and sale of milk. The Commission also licenses all milk processors and distributors that sell milk products in the Commonwealth and performs audits of milk distributors.

The Commission is comprised of eight members appointed by the Governor. Appointed as members are four consumers, two milk producers, one milk processor-distributor, and the Commission Administrator as an ex-officio non-voting consumer member.

The Commission funds its activities from monthly assessments on dairy producers, processors, and distributors. Assessments for fiscal year 1999 totaled \$609,533, of which the Commission spent \$590,825, primarily on office rent and payroll expenses.

The Commission also manages a transportation pool (Equalization Fund) to reduce dairy farmers' milk delivery costs to Tidewater regional processing plants. During the year, total collections and disbursements for the Equalization Fund were \$29,931 and \$29,881, respectively. In addition, the Commission administers a Producer Loss Recovery Fund to reduce dairy farmers' losses from distributors' bankruptcies. During the year, total collections and disbursements for this Fund were \$2,121 and \$2,710, respectively. These amounts are considerably less than the figures reported for fiscal year 1998 due to the decline in bankruptcies filed.

## INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the State Milk Commission for the year ended June 30, 1999. We conducted our audit according to the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Audit Objectives and Findings

Our audit's primary objectives were to review the adequacy of the Commission's internal control structure, test compliance with applicable laws and regulations, and evaluate the accuracy of recording financial transactions in the Commission's accounting records for the Equalization and Producer Loss Recovery Funds and the Commonwealth Accounting and Reporting System.

Our audit procedures included inquiries of appropriate personnel, observation of the Commission's operations, and inspection of documents and records. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures

Revenues

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Commission's policies and procedures were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Commission's management has responsibility for establishing and maintaining an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

Our audit was more limited than would be necessary to provide an opinion on the internal control structure or on overall compliance with laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of the internal control structure to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

### Audit Conclusions

We found the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in the Commission's accounting records for the

Equalization and Producer Loss Recovery Funds. The Commission records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and the Commission's accounting records.

We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations found no instances of noncompliance that we are required to report under Government Auditing Standards.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

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